



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

December 1, 1999

The Honorable John R. Kasich
Chairman, Committee on Budget
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Enclosed is the Treasury Inspector General for Tax Administration's (TIGTA) input on the major challenges facing Internal Revenue Service (IRS) management in Fiscal Year (FY) 2000. I am also enclosing the Annual Audit Plan for FY 2000 which reflects the planned audits and overall objectives for the year.

The challenges facing IRS management in FY 2000 have not changed substantially from last year. We have added two new issues to the list. First, the IRS must address equally important issues: providing first-rate customer service and ensuring compliance with the tax laws. The challenge for the IRS is to execute both of these activities within the constraints of existing resources. For example, a significant number of Examination and Collection resources have been reassigned to Customer Service and to implement the Restructuring and Reform Act of 1998. As a result, the inventory of delinquent cases in the collection process is increasing and the amount of tax assessments is decreasing.

Second, the global economy is rapidly growing and generating increasingly sophisticated business transactions. The IRS must develop effective customer service and compliance programs, including pre and post filing, to meet the tax administration needs of this expanding taxpayer segment.

The one challenge from last year that has been removed for FY 2000 is selecting and controlling returns for examination. Although we continue to view the issue as a risk, the IRS has agreed to take corrective actions based on findings and recommendations reported in FY 1999 and early FY 2000. We do not plan to conduct audit work on this issue in FY 2000 to allow the IRS adequate time to implement the corrective actions, but we will follow up to evaluate the effectiveness of these actions in FY 2001.

TIGTA believes the major management challenges facing the IRS in FY 2000 are:

- Financial Management
- Modernization of the Internal Revenue Service
 - Organizational Restructuring
 - Technology Modernization
 - Year 2000 Compliance
- Security of Internal Revenue Service's Information Systems
- Processing Returns and Implementing Tax Law Changes During the Tax Filing Season
- Customer Service and Tax Compliance Initiatives
- Providing Quality Customer Service Operations
- Revenue Protection - Minimizing Tax Filing Fraud
- Taxpayer Protection and Rights
- Implementation of the Government Performance and Results Act of 1993
- Impact of the Global Economy on Tax Administration

A summary of each issue, including comments on progress the IRS has made toward resolving the challenge or the vulnerabilities the IRS continues to face in achieving results, is included, where appropriate. Significant open audit recommendations are listed in the Appendix.

If we can provide additional information, please contact me at (202) 622-6500, or your staff may contact Pamela J. Gardiner, Deputy Inspector General for Audit, at (202) 622-6510.

Sincerely,

/s/

David C. Williams
Inspector General

Enclosures

